The Inter-linkage Between Institutional Quality and Economic Development in Some Selected African Countries: Panel Data Approach

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Abstract

This paper examines the inter-linkage between economic development and institutional quality of some selected countries in Africa. Data for 27 African countries over the years 1996 – 2016 are used in a dynamic panel model of System GMM estimation. Consequently, the results show that institutional quality significantly and positively affects development (real GDP per capita) indicating better governance enhance economic progress and vice versa. The causal link between governance and development is found to be bidirectional running both from governance to development and from development to governance. Except voice and accountability all institutional quality indicators significantly affect economic development in Africa. Also, the result suggest that good governance have positive and significant impact on economic development of all countries under consideration regardless of their level of growth, but it is highly desirable for lower income economies. However, there is no significant relationship between governance quality and HDI. Furthermore, the regression result depicts that the colonial background of the countries was one of the factors for cross country variation of institutional quality in Africa. It is, therefore, important to understand governance-development nexus while developing and implementing development policies. Policies formulated to improve governance and development should not be treated as different strategies, rather it has to be treated as integral components of the same strategy.

Key words: Africa, Economic development, Institutional Quality, Panel data, Generalized Method of Moment, causality.

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